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SUBJECT: NEPAL: ECONOMIC HIGHLIGHTS FOR THE MONTH OF
DECEMBER 2008

11. (U) Below is a compilation of economic highlights from
Embassy Kathmandu for the month of December 2008, including
the following:

- Inflation Up
- Trade Up, Revenue Up
- Electricity Crisis Deepens
- Tourism Figures Up
- Petroleum Products Fall
- Remittances Expected To Fall
- Head of National Planning Commission Steps Down

Inflation Up

12. (U) Nepal Rastra Bank (NRB), Nepal's central bank,
reported in December that year-on-year inflation in Nepal had
increased to 14.5 percent, from 6.3 percent in the previous
year. The NRB attributed the increase to continuing high
food and transportation costs. According to a December 30
World Food Program report, the price for various key
foodstuffs decline for a second month in line with
anticipated seasonal price trends, however, it is clear that
this year's robust production is not enough to reduce prices
to last year's levels. Nepal Oil Corporation reduced
gasoline prices (see item below), but transporters have yet
to reduce prices accordingly. The already high chicken
prices are expected to increase again due to bird flu
outbreaks in India (Assam and West Bengal). Likewise, high
sugar prices will increase because of a labor dispute between
sugar farmers and the major sugar mill in Lumbini.

Trade Up, Revenue Up

13. (U) In the first four months of the 2008/2009 fiscal year
(which began July 15), Nepali exports soared by almost 40
percent over the comparable period in 2007/2008. Exports to
India increased by over 24 percent versus negative growth of
almost 71 percent a year earlier. Total imports grew by
almost 39 percent as compared to 16 percent in FY 2007/2008.
The Revenue Secretary at the Ministry of Finance was quoted
on December 23 saying that for the first 5 months of the
2008/2009 Nepali fiscal year (which began July 15), the
Government of Nepal (GON) was on target for revenue
collection. The Nepali Rupees 43.06 billion (approximately
USD 61 million at an exchange rate of NRs 70 to the dollar)
collected represented a 33 percent increase over the previous
year.

Electricity Crisis Deepens

14. (U) On December 3, the Nepal Electricity Authority (NEA) imposed 45 hours of power cuts ("load shedding") per week citing the fall in the production of energy because of a decrease in the water flow in Nepal's rivers. (In September, NEA had increased weekly loadshedding to 31 hours.) On December 17, the cabinet declared that an "energy crisis" existed, and announced a provisional plan to add some 200 MW to the national grid by mid-June by setting up thermal (diesel) plants. Prime Minister Dahal subsequently publicly backed the thermal plant idea, which was widely criticized. On December 18, NEA increased weekly load shedding to 63 hours per week -- 10 hours for six days and three hours for one day. NEA's Managing Director warned that load shedding would reach 16 hours per day within three months. On December 29, NEA increased load shedding by two hours per day to 77 hours per week.

Tourism Figures Improve

15. (U) According to figures released by the Immigration Office at Tribhuvan International Airport in Kathmandu, the total number of visitors by air to Nepal in 2008 reached 374,661. With nearly 550,000 tourists (including arrivals by land) in 2008, arrivals increased by 4 percent over 2007, per the spokesman of the Nepal Tourism Board, Aditya Baral. Arrivals of 526,313 in 2007 had been the previous record for visitors to Nepal.

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Petroleum Product Prices Fall

16. (U) On December 3, the monopoly, state-owned Nepal Oil Corporation (NOC) reduced the price of petroleum products to take into account the decline in the international price of oil. NOC lowered the price of gasoline, diesel, kerosene and aviation fuel each by NRs 5 (USD .06) per liter. It left the price of cooking gas unchanged. It added a surcharge in Kathmandu of 50 paisa (USD .005) per liter of gasoline, diesel and kerosene as a "pollution" tax. Effective December 27, NOC reduced prices again. It cut the price of gasoline by NRs 5 (USD .06) per liter and diesel and kerosene each by NRs 1 (USD .01) per liter. NOC cut the price of cooking gas by NRs 50 (USD 6) per 14 liter cylinder.

Remittances Expected To Fall

17. (U) On December 15, Krishna Bahadur Manandhar, the Acting Governor of the NRB stated that the NRB expected remittances would decline by almost 40 percent in the first four months of the 2008/2009 fiscal year in comparison to the previous year. The Acting Governor attributed the decline to the world economic crisis. He said that the depreciation of the Nepali rupee against the U.S. dollar and the holiday season might have raised the inflow temporarily but that increase was not sustainable. He added that Nepal's remittance levels were not likely to be affected as severely as most remittances came from Gulf countries which had not yet been badly hit. Remittances contribute more than 17 percent of Nepal's Gross Domestic Product.

Head of National Planning Commission Steps Down

18. (U) Dr. Pitamber Sharma, who had been appointed on September 1 as vice chairman of the National Planning Commission (NPC), tendered his resignation on December 19. (Note: The Prime Minister is the chairman of the important long-term planning body. End note.) Sharma was reportedly unhappy over the Maoist-led government's appointment of NPC

members in early November without prior consultation with him. (Note: Even though the public outcry following the proposed November appointments meant the appointees have never taken up their positions, Sharma was so upset over the process he tendered his resignation. End note.)

Comment

19. (SBU) In December, Nepal's new Maoist-led government was able to take advantage of the dramatic fall in world petroleum prices to reduce prices. Cooking gas, which is important to urban households, however, continues to be in short supply. Other impacts of the global economic crisis have yet to hit, including an expected fall in remittances, exports and tourist arrivals. With inflation still historically high, and the electricity crisis set to worsen, the coming weeks look likely to have little in good news on the economic front.

Conclusion

19. (U) This is Embassy Kathmandu's first economic monthly. Post intends to make this a regular feature. Happy New Year!
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